

# Aadhar Housing Finance (AADHARHF)

Diversified Financials

**BUY**

CMP(₹): 390

Fair Value(₹): 550

 Sector View: **Attractive**

NIFTY-50: 25,279

September 02, 2024

## The largest bastion

Aadhar is a large affordable HFC (Rs211 bn of AUM in FY2024, 7% market share in the affordable segment) with a long track-record, well-diversified geographical presence and customer profile. Its multipronged expansion and appraisal strategy will drive 21% AUM CAGR (FY2024-27E) with low credit costs. Stable margins and improving leverage will accelerate RoEs back to high-teens. Initiate coverage with a BUY rating; FV Rs550.

### Initiate with BUY; FV Rs550

We initiate coverage on Aadhar with a BUY rating and RGM-based FV of Rs550/share (41% upside). Aadhar stands out versus most affordable peers due to a larger balance sheet, longer vintage and superior RoEs. On the other hand, its loan growth (21% CAGR during FY2024-27E) is comparable more to mature housing finance companies than fast-growing smaller affordable HFCs.

### Aadhar: Large, seasoned and diversified

Aadhar (AUM Rs211 bn in FY2024), the largest among compared affordable HFCs with 7% market share in FY2024, leverages its diversified customer (57% salaried, 43% self-employed AUMs) and geographic profile (15% of AUM from the largest state, i.e. Uttar Pradesh). Its multipronged expansion strategy of increased penetration through a variety of branch formats, augmented by industry-first initiative of Aadhar-mitra, will likely support 21% AUM CAGR (FY2024-27E). A combination of centralized underwriting (at regional processing units) for the salaried and decentralized (at local branches) for the informal profiles, coupled with a dedicated collections team, underpins its low NPLs. Overall credit cost at 0.2-0.4% during FY2021-24 was comparable to listed peers (0.1-1.1%), even though gross stage-2 is a tad higher than peers and gross stage-3 loans are in line.

### Heading back to high-teen RoEs

We expect Aadhar to deliver 22% EPS CAGR during FY2024-27E on the back of 21% AUM growth, near-stable spreads, higher fees and consistent improvement in operating leverage. RoE would head back to high-teens, after IPO-driven reduction in 1HFY25E, as leverage gradually rises and core profitability (4.4-4.7% RoA) remains strong. While rising funding costs and competition in the affordable space put pressure on NIM, Aadhar's strategy to grow in the interiors will help offset the same; higher insurance distribution income supplements core NII. A shift toward non-home loans (25% of AUMs in FY2024), self-employed (43% of AUMs) and informal (44% of AUMs) is accretive to profitability.

### Key risks: Competition, effective execution and higher share of self-employed

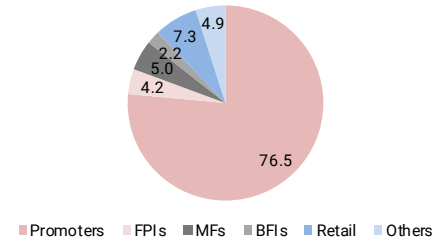
Key risks include (1) lower NIM or growth due to increase in competition in larger centers or from large HFCs eyeing the affordable housing space, (2) effective execution of consistent growth strategies, especially due to its multipronged growth and appraisal approach and (3) risk to asset quality from rising share of self-employed and implications of cross-default and cross-acceleration clauses in loan agreements.

### Company data and valuation summary

#### Stock data

CMP(Rs)/FV(Rs)/Rating	390/550/BUY
52-week range (Rs) (high-low)	487-292
Mcap (bn) (Rs/US\$)	167/2.0
ADTV-3M (mn) (Rs/US\$)	0/0.0

#### Shareholding pattern (%)



#### Price performance (%)

	1M	3M	12M
Absolute	(9)	13	0
Rel. to Nifty	(11)	1	0
Rel. to MSCI India	(11)	1	0

#### Forecasts/Valuations

	2024	2025E	2026E
EPS (Rs)	18.3	22.0	27.6
EPS growth (%)	36.7	20.4	25.2
P/E (X)	21.3	17.7	14.1
P/B (X)	3.5	2.6	2.2
BVPS (Rs)	112.7	149.8	177.4
RoE (%)	18.4	17.4	16.9
Div. yield (%)	0.0	0.0	0.0
NII (Rs bn)	13	16	19
PPOP (Rs bn)	10	13	16
Net profits (Rs bn)	7	9	12

Source: Bloomberg, Company data, Kotak Institutional Equities estimates

Prices in this report are based on the market close of September 02, 2024

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